The Iowa Policy Project
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Statement by David Osterberg
Executive Director, The Iowa Policy Project
September 29, 2009

Small organizations and individuals are hard pressed to get good health insurance for a reasonable price. My experience as director of an 8 person nonprofit is probably similar to many. Health insurance is one of the health benefit options for our full-time and half-time employees. The price given us by Blue Cross/Blue Shield seemed as reasonable as might be expected so we added a group insurance plan last year. Before then, our employees had to purchase coverage individually — if they could do so on the private market, given their health history and medical needs.

Having made this step forward, we got tripped up. My organization was told last week that our rates would increase by 24.78 percent starting next month. How are our employees supposed to change their household budgets that quickly — for no more coverage? At a time when organizations are cutting staff, freezing pay and assigning furloughs the health insurance provider is behaving more like a monopoly than the sort of business that has to respond to present business conditions. Wellmark Blue Cross and Blue Shield and UnitedHealth Group control a combined 80 percent of the Iowa insurance market, so monopoly is not far off the mark.[i]

The creation of a public health insurance option would be optimal in protecting small organizations like ours, and Iowa's 260,000 uninsured individuals.

But until federal health reform legislation is enacted, allowing small organizations like ours to combine their risk with other organizations in a pool would protect us from steep premium increases and the threat of losing our group insurance due to low enrollment. Even small staff turnover in a small organization can raise that prospect.

To make health costs predictable, insurers pool the risk of groups of people covered by the same plan. The larger the pool, and the more representative it is of the population at large, the more predictable the pools' health costs will be for a given period of time. Conversely, a smaller pool will have less stable costs and fewer individuals amongst whom the insurer can spread the risk of these costs. [ii]

Thus, small businesses and organizations are at a distinct disadvantage when it comes to purchasing health insurance for their employees. Small firms often pay much higher premiums than larger firms. Only 42 percent of Iowa firms with fewer than 50 employees offer insurance to employees, while nearly 98 percent of larger Iowa firms offer their employees insurance.[iii]

We urge the Commission to lend its support to the creation of a public health insurance option to protect Iowa's small employers. We urge the commission to allow Iowa small businesses, non-profits, and other small entities to pool their risk with other organizations to provide their employees with affordable health insurance options.

For further information, please see the attached Iowa Policy Project's brief papers on the need for health insurance reform: "Health Insurance Exchanges: Organizing the Insurance Market to Serve the Underserved" (August 2009).
"Making Health Care Affordable: Dollars Don't Stretch Far Enough for Working, Uninsured Iowans" (August 2009).
"Leveling Field for Small Business: Health Costs Concern Owners, Employees" (August 2009).

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[i] "Iowa Consumers Pay the Price for Health-Insurance Market Failure," Health Care for America Now! (July 15, 2009).
[ii] Gary Claxton, "How Private Insurance Works: A Primer," *Kaiser Family Foundation* (April 2008).
[iii] Kaiser State Health Facts, Iowa: Percent of Private Sector Establishments that Offer Health Insurance to Employees, by Firm Size, 2008.

backgrounder
The Iowa Policy Project

August 2009

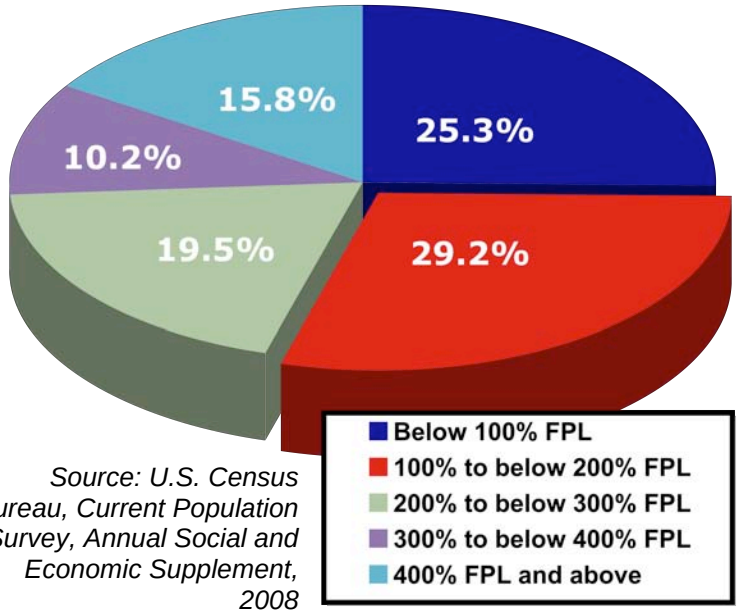
HEALTH INSURANCE EXCHANGES

Organizing the Insurance Market to Serve the Underserved

The largest income group lacking health insurance in the United States — nearly 30 percent of all uninsured Americans — earns between 100 percent and 200 percent of the federal poverty level (from $18,310 to $36,620 for a family of three).[1,2] An additional 9 million uninsured Americans, or 19.5 percent of the total uninsured population, earn between 200 percent and 300 percent of poverty (**Figure 1**). Clearly, lacking insurance is a problem that does not just affect the poor. As a result, solutions to this problem must utilize multiple policies. One of these policies is a health insurance exchange.

Health-insurance exchanges are a key component of health-reform proposals – both the House and Senate versions of health-reform legislation would create exchanges within specified geographical areas.[3,4] An exchange is a managed marketplace within a geographically defined area, in which many individuals can research and purchase insurance products. Insurance plans offered within the exchange meet certain criteria for benefits offered.[5] In most cases, exchanges would cover large geographical areas — usually a state. The purpose of an exchange is to make insurance more affordable and accessible to individuals, small groups and the uninsured.

Figure 1. Most Uninsured Earn Above Federal Poverty Level



Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplement, 2008

To achieve this goal, exchanges must be designed to increase risk pooling, eliminate risk-selection practices by insurers, require a minimum standard of benefits, and limit variation of plans offered within the exchange. In addition to creating a strong exchange, policymakers should also provide low- and moderate-income individuals and families with tax credits, so they can actually afford to purchase insurance coverage.

Risk Pooling — Individual buyers are at a distinct disadvantage to groups of buyers. When groups of people (such as a place of business) purchase insurance, the risk of major medical expenses is spread across a larger group, thus reducing the cost to insure them. Consumers purchasing insurance for themselves or their families, however, have a much smaller risk pool. Insurers often underwrite

insurance policies purchased by individuals and very small groups — that is, base premium prices on the health status and medical history of the individual purchaser.[6] This price variability often leads to adverse selection — when healthy and less healthy people fall into separate insurance arrangements, leading to higher premium prices for the less healthy group.[7]

An exchange can reduce the risk of insuring any one individual by grouping hundreds, or even thousands of people — an impossibility in the non-group private market.[8]

Limiting Risk Selection — Insurance companies function much like any other business – they seek to increase revenues and reduce costs. Less healthy individuals often pay much higher insurance premiums than healthy people, and may be excluded from insurance coverage altogether. Policymakers can implement market regulations to prevent extreme premium variability and exclusions. *Guaranteed issue* would require insurers to cover all applicants. *Modified community rating* would allow insurers to modify premium price only by a few approved factors, such as age and geographic location.

Minimum Standard of Benefits and Limited Variation of Plans Offered — For consumers to make informed choices, they must be able to understand what they are purchasing. Requiring insurers to offer a plan that provides a baseline of specified benefits gives consumers confidence that they will have coverage for what they need. Limiting the variation of plans offered within the exchange further allows consumers to make an informed decision, and also prevents adverse selection.[9]

Tax Credits for Low- and Moderate-income Individuals and Families — Alone, exchanges address problems of availability but not affordability. As a result, policymakers should also provide low- and moderate-income individuals and families with tax credits, so they can actually afford to purchase insurance coverage. A 2006 poll showed that more than half of the uninsured could not afford insurance.[10] Census data reveal that more than one-third of the U.S. uninsured were employed full time for the preceding year, and more than two-thirds of the uninsured had been employed (either full or part time) for at least part of the year.[11] As mentioned above, nearly one-third of the uninsured — or some 13 million Americans — earn between 100 percent and 200 percent of poverty. An additional 8.9 million Americans earn between 200 percent and 300 percent of poverty.[12] Massachusetts implemented an insurance exchange in 2006, providing subsidies to low- and moderate-income individuals and families up to 300 percent of poverty.[13,14] Since the implementation of the exchange and subsidy program, uninsurance is down to a nationwide low of 2.6 percent, with a 45 percent decrease in the number of low-income uninsured adults.[15,16]

The design of health insurance exchanges is essential to the success of the health reform proposals. Allowing multiple exchanges to operate within a state or region would undermine the risk-pooling advantages of creating an exchange, and would only complicate insurance choices for consumers.[17] Moreover, making participation within the exchange optional and allowing a less-regulated, parallel insurance market would likely segregate the market, and lead to many of the risk selection and adverse selection problems that exist in our current system.[18]

If designed properly, insurance exchanges can expand insurance coverage and provide consumers with affordable options.

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[1] U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplement (2008).
[2] U.S. Department of Health and Human Services, The 2009 HHS Poverty Guidelines (January 2009).
[3] House Tri-Committee Health Reform Discussion Draft, Section-by-Section Analysis (June 30, 2009).
[4] Senate Health, Education, Labor and Pensions Committee, "Affordable Health Choices Act" (June 9, 2009).
[5] Linda J. Blumberg and Karen Pollitz, "Health Insurance Exchanges: Organizing Health Insurance Markets to Promote Health Reform Goals," *Urban Institute* (April 2009).

[6] Family Foundation, "How Private Health Insurance Works: A Primer" (April 2008).
[7] Sarah Lueck, "Rules of the Road: How an Insurance Exchange Can Pool Risk and Protect Enrollees," *Center on Budget and Policy Priorities* (March 31, 2009).
[8] Blumberg and Pollitz, op. cit.
[9] Lueck, op. cit.
[10] John Graves and Sharon K. Long, "Why Do People Lack Health Insurance?" *The Urban Institute* (May 2006).
[11] U.S. Census Bureau, op. cit.
[12] Ibid.
[13] John Holahan and Linda Blumberg, "Massachusetts Health Care Reform: A Look at the Issues," *Health Affairs* (August 2008).
[14] Massachusetts Commonwealth Connector, "Health Reform Facts and Figures" (June 2009).
[15] Massachusetts Commonwealth Connector, Health Care Reform: Overview (accessed July 9, 2009).
[16] Massachusetts Commonwealth Connector, "Health Reform Facts and Figures" (June 2009).
[17] Sarah Lueck, "Allowing Multiple insurance Exchanges In a Single Area Would Make It Harder to Obtain Affordable, Good-Quality Coverage," *Center on Budget and Policy Priorities* (July 8, 2009).
[18] Blumberg and Pollitz, op. cit.

The Iowa Policy Project

Formed in 2001, the Iowa Policy Project is a nonpartisan, nonprofit organization based in Mount Vernon, with its principal office at 20 E. Market Street, Iowa City, IA 52245.

The Iowa Policy Project promotes public policy that fosters economic opportunity while safeguarding the health and well-being of Iowa's people and the environment. By providing a foundation of fact-based, objective research and engaging the public in an informed discussion of policy alternatives, IPP advances effective, accountable and fair government.

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August 2009

POLICY SNAPSHOT

Making Health Care Affordable

Dollars Don't Stretch Far Enough for Working, Uninsured Iowans

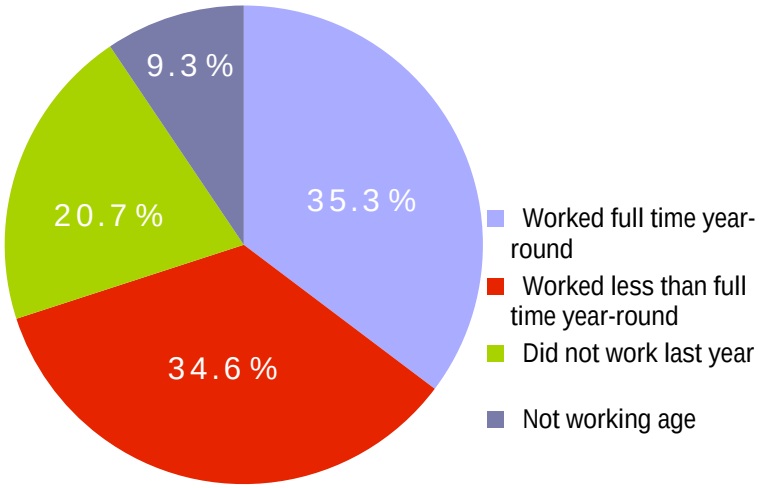
By Andrew Cannon

As Americans began to feel the squeeze of a contracting economy in 2008, health insurance premiums continued to rise – increasing by 5 percent.[1] The pressure of rising insurance costs is not a new experience for the American worker, though — premiums have more than doubled since 1999 while wages have increased by only 34 percent.[2] The majority of America's uninsured cannot stretch their earnings far enough to cover health insurance, but their low incomes are too high for public assistance.

Iowa has not been immune to this problem:

- Some 300,000 Iowans lack health insurance – a number that is likely to rise as the state feels the effects of the recession.[3, 4]
- Insurance premiums in Iowa rose by 77.9 percent from 2000 to 2006. Another study found that Iowans' wages increased by only 20.4 percent over the same period.[5]
- The vast majority of uninsured Iowans (70 percent) worked in 2007, with 35 percent working full time for the entire year. (Figure 1)[6]
- Enrolling in Medicaid in Iowa requires earnings of less than 71

Figure 1. Most Uninsured Iowans Worked During 2007



Source: Current Population Survey, Annual Social and Economic Supplement (2008)

Larraine Murray is one of 300,000 Iowans who lacked health insurance in 2007. An independent child care provider in Des Moines, Murray prays she doesn't get sick. Even a common illness could cost her hundreds of dollars in lost wages and doctor and prescription costs.

Murray's income exceeds the threshold to qualify for Medicaid, but is not enough to cover the cost of a private health insurance plan. But even if she could afford private health insurance, Murray fears she would be excluded from insurance based on her pre-existing conditions.

"It really saddens me," Murray said, "to be let down by a health care system over and over again (even though) I live in this great nation, in this great state of Iowa."

— Larraine Murray, personal correspondence (2009).

percent of the federal poverty level, or $15,204 for a family of three.[7] Some 113,000 uninsured Iowans have earnings between 100 and 200 percent of the poverty line. (Table 1)[8]

As Iowa's workers continue to feel the impacts of a struggling economy, insurance will become even more difficult to obtain.[9] It is essential that policymakers take steps make sure that Iowans have access to affordable health-care options.

Table 1. Iowa's Uninsured by Income-to-Poverty Level Ratio

Income-to-Poverty Ratio in 2007	Insured (public or private insurance)		Uninsured	
	Total	%	Total	%
Below 100%	187,347	71.0%	76,462	29.0%
100 to below 200%	382,825	84.3%	71,478	15.7%
200 to below 300%	544,734	92.8%	42,143	7.2%
300 to below 400%	452,411	92.5%	36,917	7.5%
400% and above	1,122,617	95.9%	48,078	4.1%
Total	**2,689,933**	**90.7%**	**275,078**	**9.3%**

Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplement, 2008.

***Andrew Cannon** is a research associate at the Iowa Policy Project, where he specializes in economic opportunity and budget and tax issues affecting Iowans.*

[1] Kaiser Family Foundation, "Employer Health Benefits 2008 Annual Survey" (September 2008).
[2] "Employer Health Benefits Survey" (2008).
[3] U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplement (2008).
[4] Timothy McBride and Leah Kemper, "Impact of the Recession on Rural America: Rising Unemployment Leading to More Uninsured in 2009," *Rural Policy Research Institute* (June 2009).
[5] Families USA, "Paychecks versus Premiums: Iowa" (December 2006).
[6] U.S. Census Bureau, op. cit.
[7] The Lewin Group, "Costs and Coverage Impacts of Options for Expanding Health Insurance Coverage in Iowa" (August 2008).
[8] U.S. Census Bureau, op. cit.
[9] Timothy McBride and Leah Kemper, "Impact of the Recession on Rural America: Rising Unemployment Leading to More Uninsured," *Rural Policy Research Institute* (June 2009).

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August 2009

POLICY SNAPSHOT

Leveling Field for Small Business

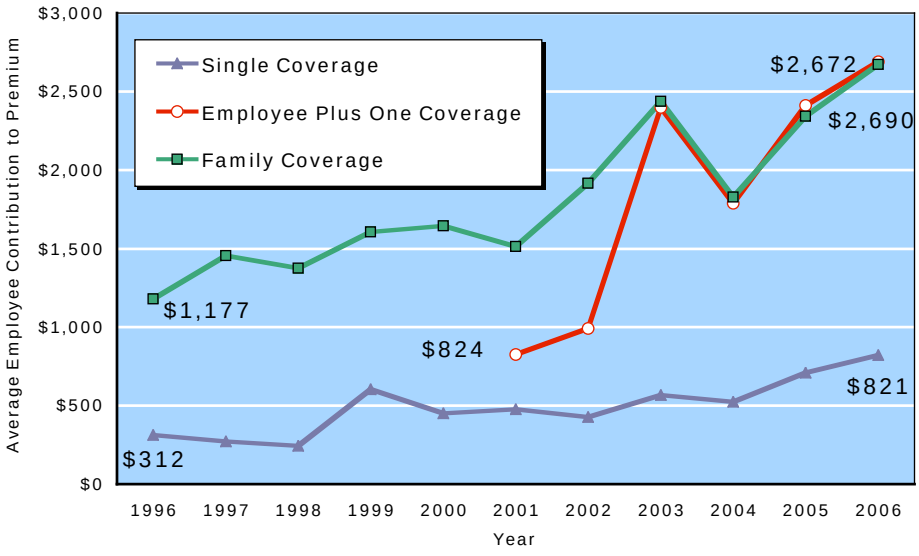
Health Costs Concern Owners, Employees

By Andrew Cannon

Small businesses — employing some 800,000 Iowans — are a key to Iowa's economic strength.[1] As health-care costs have continued to rise, though, small-business owners have had to make some difficult decisions. In Iowa, fewer small-business employees receive insurance through their employer than they did 10 years ago, and those who do are contributing much larger chunks of their paychecks to insurance costs. Some important facts about small businesses and health insurance nationally:

- The average annual health insurance premium for small businesses ***more than doubled*** in 10 years, rising 113 percent from 1999 to 2009.[2] In Iowa, the average family premium increased from $4,771 to $9,236 (a 94 percent increase) between 1996 and 2006.[3]
- Nationally, small businesses pay 18 percent more on average in premiums than larger firms for plans with comparable benefits.[4]

Figure 1. Employee Contributions to Insurance Rapidly Rising



Source: Agency for Healthcare Research and Quality, Medical Expenditure Panel Survey — Insurance Component (2008).

Bill and Jeanne Hammen have operated their jewelry shop in Grinnell for about 23 years and provided health benefits to employees for the past eight. The Hammens pay $1,000 a month in premiums for a policy to cover their own family and $400 a month each to cover two individual employees. In the past eight years, the Hammens have seen health-care costs continue to climb — so much so that they have had to offer a plan with a much higher deductible and lower benefits, even as their premiums have increased.

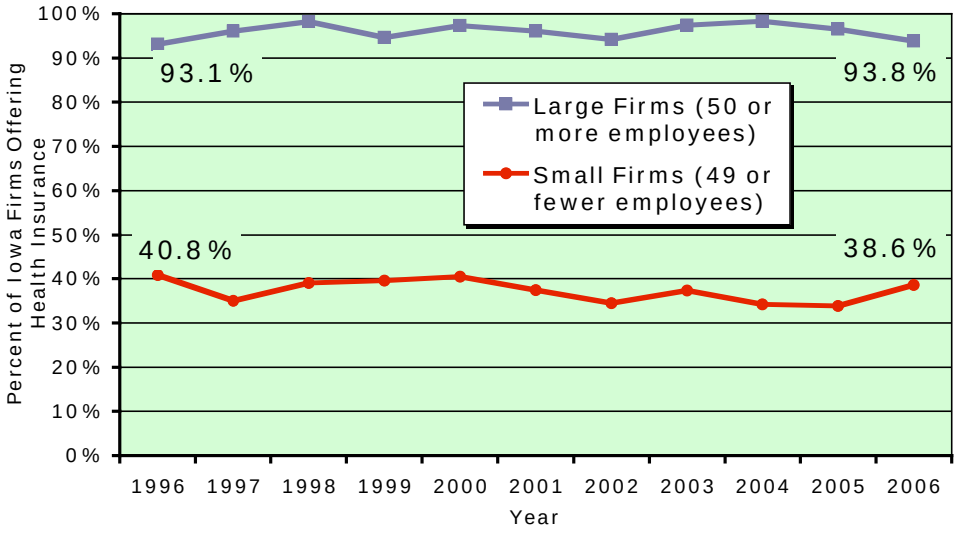
"In order to be able to keep offering coverage, we've had to cut benefits and offer a lower quality plan to be able to afford it," *Bill said.*

Initially, the plan Bill's Jewelry Shop offered its employees had a $25 copay for office visits and a $1,500 deductible. The plan that now covers the Hammens and their employees has a $35 copay and $3,500 deductible. The Hammens could shop around for another insurance plan, but they fear being excluded from a new plan with pre-existing conditions involved.

Facts about small business and health care in Iowa:

- Employee contributions to health insurance premiums ***more than doubled*** since 1996. (Figure 1)[5]
- In 2006, only **38.6 percent** of small businesses in Iowa (50 or fewer employees) offered health insurance to their employees, compared to nearly **94 percent** among businesses with 50 or more employees. (Figure 2)[6]
- Of the Iowa small businesses that do not offer health insurance to employees, **85 percent** say that they cannot afford it. Of the small businesses in Iowa that do offer health insurance, **52 percent say that doing so is a large financial burden.**[7]
- Some **76 percent** of Iowa small-business owners see the current health-care system as a major barrier to entrepreneurship.[8]

Figure 2. Fewer Small Iowa Firms Offer Health Insurance



Source: Agency for Healthcare Research and Quality, Medical Expenditure Panel Survey — Insurance Component (2008).

Small-business owners cannot survive economically if they continue to face double-digit increases in health-care costs — and neither can their employees. Health-care reform must ensure that small business have access to affordable, quality health-care coverage.

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[1] Kathryn Kobe, "The Small Business Share of GDP, 1998-2004," Small Business Administration, Office of Advocacy: (April 2004).
[2] Kaiser Family Foundation, "Employer Health Benefits Annual Survey" (March 2009).
[3] Agency for Healthcare Research and Quality, Medical Expenditure Panel Survey – Insurance Component (2008).
[4] Jon Gabel, Roland McDevitt, Laura Gandolfo, et al., "Benefits and Premiums in Job-Based Insurance," Commonwealth Fund (2006).
[5] AHRQ, op. cit.
[6] Ibid.
[7] Small Business Majority, "Report: Iowa Small Business Healthcare Survey" (July 7, 2009).
[8] Ibid.

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